PanCanadian

ANNUAL REPORT 1980

PanCanadian Petroleum Limited

Offices

HEAD OFFICE
2000 - One Palliser Square
Calgary, Alberta

UNITED STATES
2201 First National Bank Bldg.
Denver, Colorado

1500 - One Houston Center
Houston, Texas

UNITED KINGDOM
6 Arlington Street
London, England

Shares listed

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company of Canada — Calgary, Montreal, Toronto, Vancouver

Banker

The Royal Bank of Canada

Auditors

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

Shareholders' Meeting

The Annual Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m. local time on Thursday, April 2nd, 1981. Notice of meeting, information circular and form of proxy are being mailed to each Shareholder with this report.

In April, each year, PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information." The report contains more detailed information than is possible to include in the Annual Report, and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Coordinator — Budgetary Control & Statistics.

Contents

Subsidiary and Affiliate Companies

Wholly Owned

Blackfoot Pipelines Ltd.
Canadian Pacific Oil and Gas of Canada Limited
Canadian Pacific Oil and Gas Nederland B.V.
Canadian Persian Oil Limited
PanCanadian Gas Products Ltd.
PanCanadian Petroleum Company
PanCanadian Petroleum (U.K.) Limited
PanCanadian Kerrobert Pipeline Ltd.

Other

Minerals Ltd. — 50%
Panarctic Oils Ltd. — 8.71%
Syncrude Canada Ltd. — 4%

COMMEMORATION

The cover depicts the drilling of Alberta's first natural gas discovery well, CPR Langevin No. 1 3-29-15-10 W4. The well was drilled by the Canadian Pacific Railway Company to locate water at Langevin siding, approximately 35 miles west of Medicine Hat. In early December of 1883, it discovered natural gas and on January 4th, 1884, the gas ignited destroying the drilling rig. During 1884, a second well was drilled eight feet west of the discovery. This well, CPR Langevin No. 2, became Alberta's first producing gas well and it supplied gas to Railway buildings at the siding for some 50 years.

PanCanadian Petroleum Limited erected a memorial cairn at the site, now known as Alderson siding, on the occasion of the centennial (1881-1981) of Canadian Pacific Limited.

Corporate Directors

Robert W. Campbell Calgary, Alberta	*	Chairman of the Board and Chief Executive Officer of PanCanadian Petroleum Limited; Director of Canadian Pacific Enterprises Limited, Cominco Ltd., and Dominion Bridge Company, Limited
Albert D. Cohen Winnipeg, Manitoba	†	President and Chief Executive Officer of General Distributors of Canada Ltd.
Jock K. Finlayson Toronto, Ontario		President of The Royal Bank of Canada
G. Donald Love Edmonton, Alberta	†	Chairman and President of Oxford Development Group Ltd.
J. Wallace Madill Calgary, Alberta	*†	General Manager of Alberta Wheat Pool
Hugh A. Martin Vancouver, B.C.	†	President of Western Construction & Engineering Research Ltd.
Paul A. Nepveu Montreal, Quebec		Vice Chairman of Canadian Pacific Enterprises Limited
Bartlett B. Rombough Calgary, Alberta	*	President of PanCanadian Petroleum Limited; Director of Panarctic Oils Ltd.
John C. Ross Lethbridge, Alberta	†	Rancher; President of the Milk River Cattle Company Limited
Ian D. Sinclair, Q.C. Montreal, Quebec		Chairman and Chief Executive Officer of Canadian Pacific Limited
W. J. Stenason Montreal, Quebec		President of Canadian Pacific Enterprises Limited
Marshall M. Williams Calgary, Alberta	*	President and Chief Executive Officer of Calgary Power Ltd.

Corporate Officers

Robert W. Campbell	Chairman of the Board and Chief Executive Officer
Bartlett B. Rombough	President
Ian D. Sinclair, Q.C.	Vice President
Charley H. Stevens	Senior Vice President — Finance
Richard C. Verner	Senior Vice President — Operations
Arthur W. Groll	Vice President — Industry Relations
C. Rolf V. Thomson	Vice President — Exploration
Kenneth B. Cusworth	Vice President — Corporate Research
C. Barrie Clark	Vice President — Administration and Assistant Secretary
Keith A. Wurzer	Treasurer
Donald N. Maxwell	Comptroller
Victor B. Watson	Assistant Treasurer
George E. Little	Corporate Secretary
Virginia M. James	Assistant Secretary

* Member of Executive Committee
† Member of Audit Committee

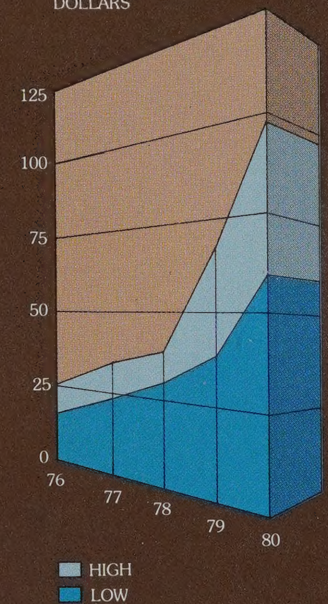
HIGHLIGHTS

Financial	**1980**	1979
(Dollar amounts in thousands except per share figures)		
Gross Income	**$574 687**	$423 905
Funds from Operations	**367 312**	268 107
Per Share	**11.76**	8.59
Net Income	**241 367**	165 830
Per Share	**7.73**	5.31
Dividends	**99 909**	54 632
Per Share	**3.20**	1.75
Capital Expenditures	**269 960**	215 191
Long-Term Debt at end of year	**176 425**	204 390
Working Capital at end of year	**27 151**	38 050

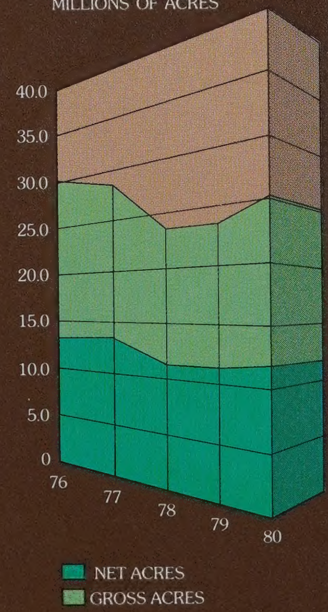
Operating

Production (After Royalty) — Daily		
Natural Gas — million cubic feet	**281.4**	289.9
Crude Oil and Natural Gas Liquids — barrels	**50 807**	52 949
Synthetic Oil — barrels	**2 875**	1 238
Drilling Statistics — Working Interest Wells		
Exploratory Wells Drilled	**356**	340
Indicated Successes	**250**	232
Development Wells Drilled	**430**	256
Indicated Successes	**418**	240
Net Working Interest Acreage (thousand acres)	**11 935**	11 596

Share Market Value
DOLLARS



Land Holdings
MILLIONS OF ACRES



TO THE SHAREHOLDERS

Last year witnessed the disruption of oil flows by events in Iran. This was accompanied by another very large increase in world oil prices, putting Canadian prices even further below international levels than they were at the beginning of the year. World oil supply and demand had been precariously balanced, owing to both conservation and recession, when the Iraqi-Iranian war reemphasized the uncertainty of oil flow out of an unstable Middle East. More importantly, it is clear that the world faces tight oil supplies over the years ahead even though this will be accompanied by short periods of apparent surplus. Diminishing world oil reserves will inevitably appreciate in value and hard-to-discover new fields will incur progressively higher replacement costs. For the foreseeable future, the flow of oil may be uncertain but rising world prices of oil and natural gas are not.

In Canada, there was little discernible impact from the tightening world oil supplies although it was not possible to avoid higher prices for imported oil. The price of domestically produced oil was allowed to increase by $3.00 a barrel at the wellhead. Primarily because of higher prices for both oil and natural gas, PanCanadian had a successful year in 1980. Net income increased 46% to $241.4 million from $165.8 million, or $7.73 and $5.31 a share, respectively. Funds generated from operations were $367.3 million or $11.76 a share. This is 37% more than 1979 cash flow, which was $268.1 million or $8.59 a share. Investment in capital programs continued at a high level with expenditures increasing from $215.2 million in 1979 to $270.0 million in 1980. Exploration expenditures were a record $184.7 million in 1980 compared with $155.3 million in 1979. Expenditures on development programs were $85.3 million, a 42% increase over 1979 expenditures of $59.9 million.

Sales volumes were virtually unchanged from last year with crude oil and natural gas liquids declining one percent. Lower production of conventional crude oil and reduced sales of natural gas liquids from Empress were partially offset by increased production from Syncrude. Sales of natural gas were 281.4 million cubic feet a day, 3% lower than sales of 289.9 million cubic feet a day in 1979. This occurred because of reduced exports to the United States and because, for the first time in many years, domestic market consumption declined.

The market outlook for crude oil and natural gas liquids in 1981 is favorable for PanCanadian. Your Company has been able to increase its domestic market volumes relative to exports, and as a result it expects to be able to maintain sales of crude oil and natural gas liquids in the coming year.

Demand for Canadian natural gas in the United States will remain soft in 1981 if the prevailing price differential remains. Generally, increased energy prices will continue to encourage conservation practices in both Canada and the United States and this will reduce market growth.

In the longer term, hearings currently being conducted before the National Energy Board will hopefully identify large volumes of gas as surplus to Canadian requirements. Additional marketing opportunities should then arise as United States market disruptions disappear. Domestically, activity is proceeding towards regulatory approval of the federal government's desire to have a natural gas pipeline constructed in the eastern provinces. It continues to be your Company's position that the project not be solely reliant on price concessions but, to the extent that such concessions are required to enhance the project, they should be equitably divided between the producing industry and the transmission sector.

Domestic and export market conditions in recent years, coupled with large reserves additions over the same period, have resulted in substantial unconnected shut-in gas reserves. Of these, contracted reserves have a production capability of 50 million cubic feet a day, while non-contracted reserves have a capability of 10 million cubic feet a day. Your Company will vigorously pursue marketing opportunities for this shut-in capability in 1981.

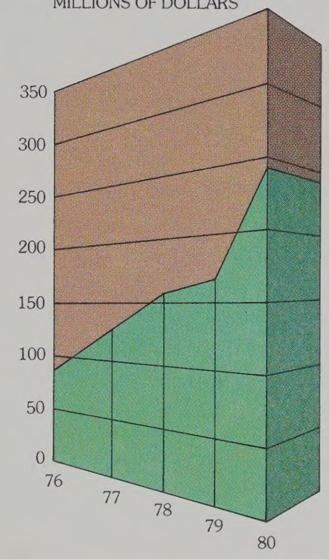
PanCanadian will continue to be an aggressive explorer where it perceives an incentive to do so and where the financial reward is commensurate with the risk. An active interest will be directed to ongoing exploration in Western Canada, especially Alberta. Your Company firmly believes that this is Canada's most promising area of energy reserves development potential in the near future. Offshore Eastern Canada, PanCanadian has earned an interest in a two million acre permit and it has an opportunity to earn an interest in another permit of 1.6 million acres. In addition, your Company is involved in Arctic exploration through Panarctic Oils Ltd. Internationally, an exploration program is ongoing in selected areas of interest including the United States, the United Kingdom and the People's Republic of China.

To achieve continuing success in the development of Canada's energy resources, a number of prerequisites must exist, including profit incentive, price encouragement, business confidence and stability in intergovernmental relations. These are necessary for the attainment of Canadian energy self-sufficiency which is a vital cornerstone for a national energy policy. On October 28, 1980 the government of Canada published "The National Energy Program", the stated objectives of which are:

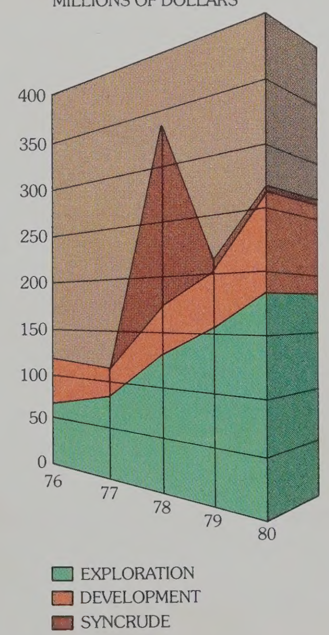
1. to achieve energy independence for Canada,
2. to increase the federal government's share of the benefits obtained from energy resources,
3. to increase Canadian ownership and control in the energy sector, and
4. to increase the security of energy supply by 1990.

These are worthy objectives and PanCanadian supports them. However, the methods chosen may not

Net Income
MILLIONS OF DOLLARS



Capital Expenditures
MILLIONS OF DOLLARS



lead to their attainment. For instance, energy independence will cost money simply because it will be necessary to maintain and even increase an active exploration level. Funds required for high-risk exploration should come from equity financing or industry cash flows because debt financing is neither prudent nor appropriate. The amount of cash flow available will be reduced by the new taxes proposed under the Program to the extent that new taxes are not offset by government cash grants.

The domestic prices for crude oil and natural gas, and the staged increases as proposed in the Program embrace too many categories. The planned increases are too modest in the early years and too uncertain in later years. Canadians must accept substantially higher domestic prices for oil and natural gas in order to achieve a balance in energy between supply and demand. The revenue taxes proposed in the Program should be redesigned so that the impact on the industry is less severe. Appropriate taxation of net income is, in the Company's opinion, a more desirable means of dealing with any excessively high oil industry profits resulting from higher prices.

The Program also included a system of Petroleum Incentive Payments which will be related to a company's Canadian Ownership Rate. These incentive grants will offset, to a degree, the negative impact caused by the elimination of certain income tax incentives although, in general, the National Energy Program will have an adverse impact on the Company's cash flow and net income.

Your Company will be eligible for grants obtainable under the Program, but until the final rules relating to the measurement of Canadian Ownership Rates are announced, the level of such grants cannot be determined.

PanCanadian recognizes the second objective, namely to increase the federal government's share of benefits derived from oil and gas production. Nonetheless, to the extent that it is achieved at the industry's expense it will reduce the internally generated funds available for ongoing exploration and development. Further, because the division of benefits between the two levels of government and industry has not been firmly resolved, there is a cloud of uncertainty pervading all industry activities. The two levels of government must resolve the issue of division of benefits as soon as possible, and reach agreement on a firm energy policy with a consistent, reasonable and fair energy price structure.

The objective to increase Canadian ownership and control is commendable. The methods for its attainment are currently being defined through dialogue between industry and the federal government. Significant advances toward Canadian ownership have already been made over the past few years and this should be further encouraged by providing Canadian individuals and corporations with incentives to invest in such companies. Your Company believes that the policy objective of increased Canadianization, in order to be compatible with active exploration, must occur over a reasonable timeframe.

The final objective of the Program, that of increasing the security of energy supply, is interwoven with the other objectives. It will, nonetheless, be achieved only by increasing Canada's inventory of domestic oil and gas reserves, thereby improving our energy supply security.

In April, 1980, Mr. John M. Taylor retired after 25 years of invaluable service with PanCanadian and predecessor companies. He was President of the Company and a member of the Board of Directors since 1969. Mr. Bartlett B. Rombough became President and a member of the Board of Directors. Also in 1980, Mr. C. Barrie Clark became Vice President of Administration and Assistant Secretary. Corporate headquarters for the United States activities were relocated to Denver, Colorado and Mr. Donald R. Reeves was appointed Vice President of Exploration for PanCanadian Petroleum Company.

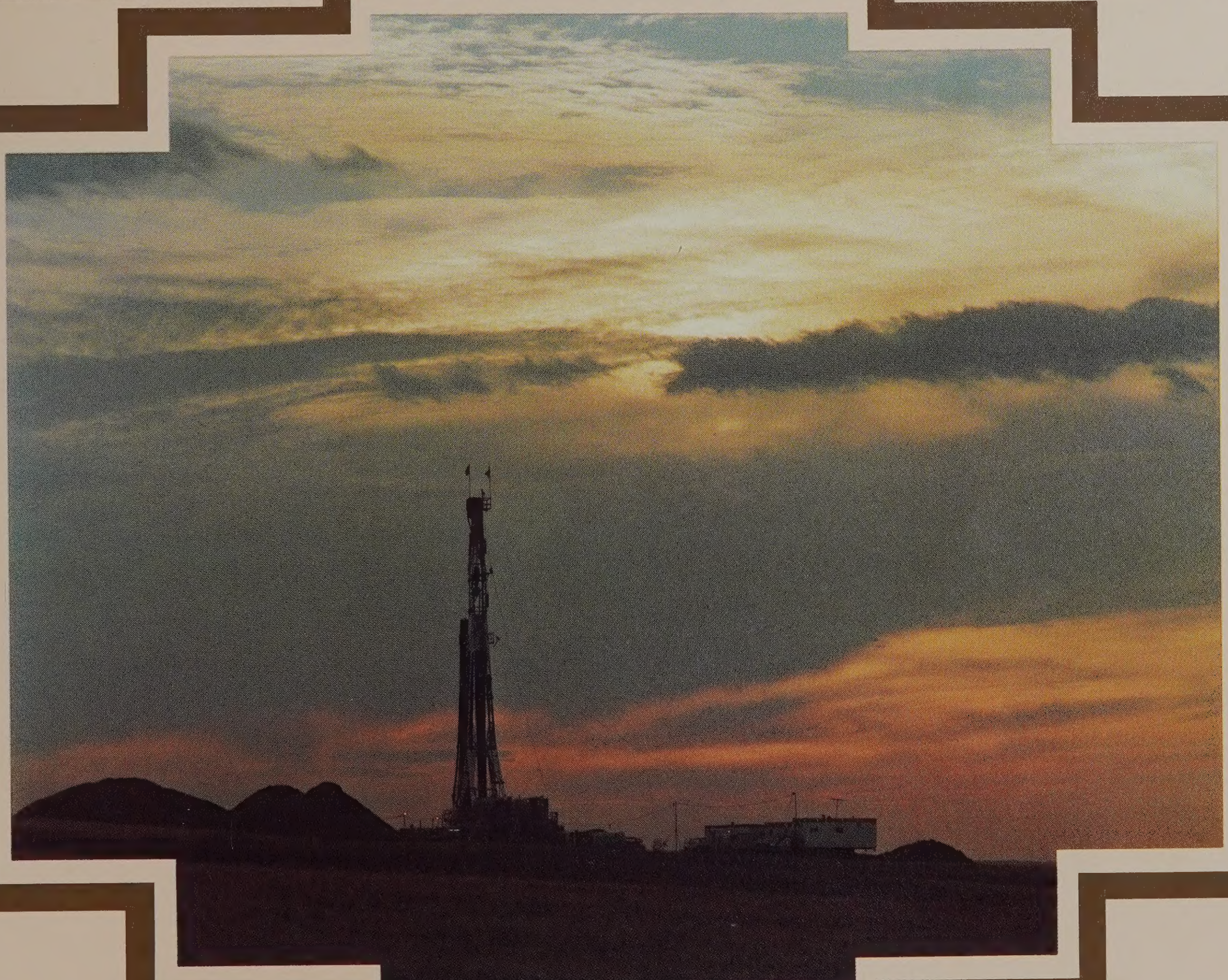
Once again we express appreciation to our employees who, through their continued competence and dedication, have enabled the Company to enjoy another successful year.

Robert W. Campbell
Robert W. Campbell
Chairman of the Board and
Chief Executive Officer

Bartlett B. Rombough
Bartlett B. Rombough
President

Calgary, Alberta
February 27, 1981

EXPLORATION



PanCanadian Petroleum continues to have one of the most active exploration programs in Western Canada. During 1980, industry drilling activities reached record levels and PanCanadian had an interest in 1394 wells drilled in the western provinces. This total represents 15% of all wells drilled by industry and includes 531 exploratory and 863 development wells. The Company's exploratory drilling program resulted in 133 oil wells and 252 gas wells, a success rate of 73%. This exploratory drilling resulted in estimated additions to the Company's proven reserves, before royalty, of 3.7 million barrels of crude oil and natural gas liquids and 222 billion cubic feet of natural gas. During 1980, PanCanadian spent $19.8 million to add 202 151 gross acres to land holdings in Alberta and British Columbia.

Alberta

In Alberta, where the Company has a working interest in 8.3 million gross acres, a vigorous program of exploratory drilling and seismic was pursued in 1980. In central Alberta, the Hoadley-Leedale gas field has been successfully extended and a new oil play is being evaluated at the south end of the field. In the Irrigation Block of southern Alberta, 34 new oil and gas pools were discovered during the past year. The program will continue, both to establish the extent of the discoveries and to continue the search for more. The developing Alderson West oil pool has been extended by PCP Alderson 02-02-16-15 W4M which encountered 75 feet of net pay, the thickest to date in the field. Potential in this area is encouraging and the high level of activity will extend through 1981. Oil and gas discoveries at Morningside suggest interesting new plays which will be further evaluated in 1981. At Lindbergh, in northeastern Alberta, a new heavy oil field is developing that should add significantly to the Company's reserves. In the fall of 1980, a substantial program of seismic field acquisition and data purchases was undertaken throughout southern Alberta. Over 7500 miles of data was acquired, providing coverage over specific plays and the framework of a good regional grid.

In northwestern Alberta in the Grande Prairie-Deep Basin area, exploration has been maintained at a high level. PanCanadian and partners drilled a total of 18 wells in this area in 1980. This program resulted in 11 potential oil wells and seven potential gas wells. PanCanadian's land holdings in the area were increased by the acquisition of 61 944 gross acres at Crown sales.

In the northern Alberta plains, PanCanadian and partners completed a fourth successful well in the Pouce Coupé area with two potential gas zones and one potential oil zone which will be further evaluated in 1981. In the Tangent area, testing of 06-32-80-23 W5M yielded a gas flow of 3.8 million cubic feet a day from one of the five potential zones. Further testing and drilling are scheduled for 1981.

British Columbia

During the past year, drilling in northeastern British Columbia resulted in one oil well and four gas wells. Seismic activity continued in this area during 1980. Exploration programs will continue during 1981 in the economically favorable areas of British Columbia, with interests centering around the Klua and Kyklo-Junior areas.

Frontier

PanCanadian has earned a 7.5% interest in a two million acre permit offshore Labrador by participating in the well Aquit et al Hekja O-71, drilled over two drilling seasons at a total cost of approximately $52 million. Testing of the well resulted in a maximum gas flow of 9.4 million cubic feet a day with 106 barrels of condensate, and a calculated absolute open flow of 43 million cubic feet a day. Although this well provided valuable exploration information and significant recovery of hydrocarbons, it was abandoned as an expendable wildcat because its remoteness makes it uneconomical to produce at this time. The Company now has an option to earn a 7.5% interest in an additional 1.6 million acres by participating in a second well. Because of PetroCanada's back-in rights contained in the National Energy Program and proposed legislation relating to frontier lands, PanCanadian's 7.5% interest in the acreage may be subject to change.

Through Panarctic Oils Ltd., PanCanadian participated in Whitefish G-63, a follow-up to H-63, both of which are major gas-condensate discoveries located offshore western Lougheed Island. A further significant gas discovery was made at Char G-07 to the south of Ellef Rignes Island. Drilling programs will continue in 1981.

United Kingdom — North Sea

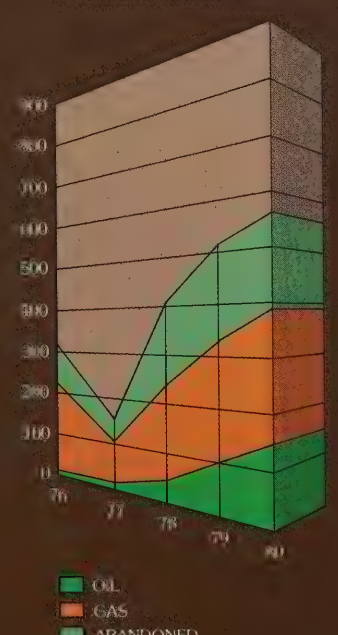
At the Seventh Round Awards in the United Kingdom sector of the North Sea, PanCanadian and partners acquired block 29/5b, an industry

CANADA

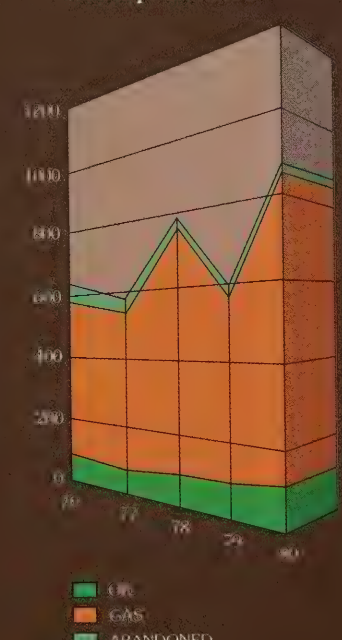
LEGEND

Areas in which PanCanadian holds oil and gas rights as of December 31, 1980

Exploratory Wells



Development Wells



nomination block requiring a bonus payment, of which the Company's 25% share was £1.25 million. Geophysical evaluations will be carried out in 1981, followed by exploratory drilling. An exploratory well originally scheduled for 1980 on block 13/29, in which the Company has a one-third interest, was postponed due to rig delay. It is anticipated that this well will spud late in 1981.

China

During 1980, PanCanadian participated in group seismic evaluation programs in the Yellow Sea and off west Hainan Island, of the People's Republic of China. All the seismic has been completed and is now being interpreted. Blocks of acreage in these areas may be offered by the Chinese government to companies that have participated in the seismic programs. Should such an offering be made, the Company may participate in a group application for prospective blocks.

Australia

On block WA-93-P, offshore northwestern Australia, additional seismic was conducted in 1980 and will continue in 1981.

Coal

PanCanadian continued subbituminous coal exploration throughout the year and drilled 95 test holes, totalling 21 709 feet, in southern and central Alberta. The most significant result of this work was the discovery of the Makepeace coal field, 60 miles east of Calgary, with surface recoverable reserves of over 100 million short tons.

United States

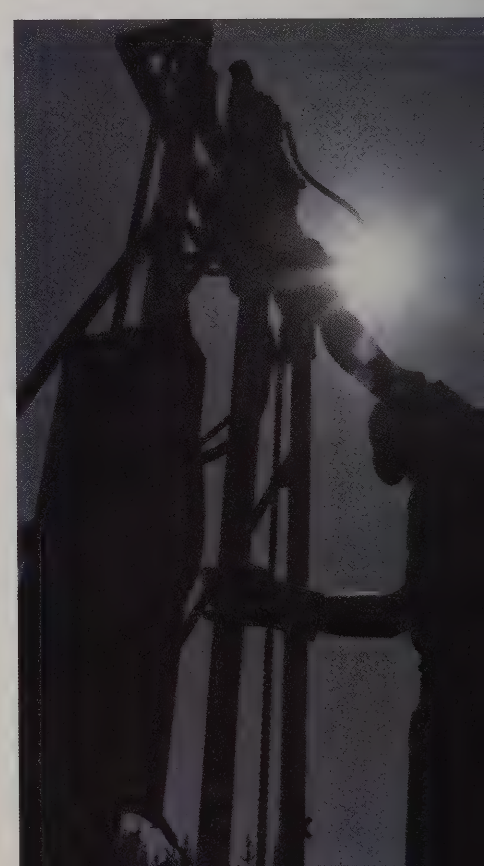
In the United States where PanCanadian has been exploring for the past ten years, activity continued in 1980. The Company now holds an interest in over 3.5 million gross acres of petroleum and natural gas rights in 18 states and two outer continental shelf areas. On these lands in 1980, 48 wells were drilled, comprising 38 exploratory and 10 development wells. The exploratory drilling program resulted in nine oil wells and three gas wells.

A total of $10.7 million was spent on new land acquisitions in 1980. The major land acquisition was made at the September 30 Gulf of Mexico sale, where PanCanadian acquired a 25% interest in East Cameron Block 65 and Eugene Island Block 146, each containing 5000 acres, for $9.3 million (U.S.). Drilling is anticipated in 1982 if rigs can be contracted.

PanCanadian and its equal partner sold an undivided one-third interest in approximately 1 750 000 gross acres of oil and natural gas rights in the East Williston Basin of North Dakota. In addition to the $6 million (U.S.) bonus payment, the new partner will undertake a $7.5 million (U.S.) work program on the lands over the next two years.

In the Gulf of Mexico, production commenced in September of 1980 on Eugene Island Block 43, offshore Louisiana, in which the Company holds a one-third interest. Current daily production rates, from the one producing well, are approximately seven million cubic feet of natural gas with 120 barrels of condensate. An additional well is scheduled to be drilled from the platform in 1981 to evaluate the lands further. An unsuccessful wildcat was abandoned late in 1980 on East Cameron Block 90, one of the two blocks acquired offshore Louisiana in 1979. Offshore Texas, drilling activities on the High Island Block A-351/A-368 unit were halted by a blowout and fire, which severely damaged the platform delaying further drilling until late 1981. On High Island Block A-367, which falls within the boundaries of a marine sanctuary, environmental concerns have caused drilling activities to be deferred to mid-1982.

Onshore, two successful exploratory wells were drilled during 1980 in the Alkali Creek field of Fisher County, Texas. At year-end, five wells were producing the maximum allowable, in total approximately 400 barrels a day of oil. PanCanadian has a 50% interest in this project, where five additional development wells are scheduled for 1981 drilling.



UNITED STATES

Aquit et al Hekja O-71, Offshore Labrador

In Solano County, California, the Company has a 25% interest in the Hastings Ranch field, where three wells are producing an aggregate of 25 million cubic feet of gas a day. At year-end, four more wells were ready to be completed and tied in to production facilities. Three additional wells will be drilled in 1981.

Exploratory programs were also conducted in other areas of California, Wyoming, North Dakota, Montana, Texas and Oklahoma.

SI Conversion Table

To Convert From	To	Multiply by
Acre (ac)	hectare (ha)	0.404 69
Foot (ft)	metre (m)	0.304 80
Barrel (bbl)	cubic metre (m^3)	0.158 91
Thousand Cubic Feet (mcf)	cubic metre (m^3)	28.173 99
Long Ton (l.t.)	tonne (t)	1.016 05
Short Ton (s.t.)	tonne (t)	0.907 18

Working Interest Holdings in Petroleum & Natural Gas Rights

	December 31, 1980		December 31, 1979	
	Gross Acres	**Net Acres**	Gross Acres	Net Acres
CANADA				
Alberta	**8 255 553**	**6 273 148**	8 076 307	6 336 560
Arctic Islands	**575 921**	**67 308**	796 366	91 557
Baffin Bay	**2 010 081**	**150 756**	—	—
British Columbia	**921 194**	**382 602**	818 262	353 831
Manitoba	**292 934**	**288 363**	277 874	268 981
N.W.T. & Yukon	**716 929**	**550 354**	761 489	589 371
Quebec	**162 770**	**14 801**	162 770	14 801
Saskatchewan	**556 364**	**510 130**	705 107	658 753
	13 491 746	**8 237 462**	11 598 175	8 313 854
UNITED STATES				
California	**33 257**	**27 380**	28 742	28 300
Colorado	**178 703**	**46 560**	175 420	46 017
Kansas	**119 169**	**85 873**	118 169	85 153
Mississippi	**84 459**	**28 134**	75 049	28 738
Montana	**150 602**	**94 010**	150 135	95 798
Nebraska	**24 520**	**17 907**	24 360	17 787
Nevada	**106 307**	**106 307**	101 462	101 462
North Dakota	**1 719 049**	**572 808**	1 562 118	846 235
Texas	**191 819**	**69 395**	56 723	15 067
Utah	**730 573**	**280 188**	861 243	343 280
Wyoming	**67 833**	**37 090**	67 560	37 140
Other	**117 712**	**18 950**	47 585	9 757
	3 524 003	**1 384 602**	3 268 566	1 654 734
INTERNATIONAL				
Australia	**8 000 000**	**2 285 600**	8 000 000	1 600 000
North Sea (Dutch)	**103 537**	**5 177**	103 537	5 177
North Sea (U.K.)	**141 616**	**21 977**	141 616	21 977
	8 245 153	**2 312 754**	8 245 153	1 627 154
TOTAL	**25 260 902**	**11 934 818**	23 111 894	11 595 742
Non-working interest acreage under lease or sublease, reserving to PanCanadian, or its subsidiaries, royalties or overriding royalties		**3 377 671**		3 712 302

NOTE: Does not include Minerals Ltd. or PanCanadian's 8.71% interest in Panarctic Oils Ltd.'s 15.9 million net acres.

PRODUCTION

Conventional and synthetic crude oil production in 1980 was one percent higher than in 1979. Sales of natural gas were down by 3%, while sales of natural gas liquids dropped 8%. Sulphur sales were up 54% and it appears an active market will continue.

Crude Oil

Net daily average production of conventional crude was 33 128 barrels a day in 1980, a marginal decrease from the 33 900 barrels a day average achieved in 1979. Production declines in some of the older fields and reduced refinery nominations were largely offset by development activities in various oil properties.

The production capability of the Countess-Lathom oil properties neared optimum in 1980 with the installation of a sweetening facility to handle hydrogen sulphide in the associated gas. At Parflesh, a substantial increase in production was realized following the completion of a water injection scheme late in 1979. A battery consolidation and solution gas conservation project was initiated in 1980 at Alderson West and completion is anticipated in the third quarter of 1981.

Production at Grande Prairie stabilized in 1980, and three new oil wells were put on production. Engineering studies on an infill drilling program were completed and five additional wells to produce the Halfway oil are planned for 1981.

Synthetic Crude Oil

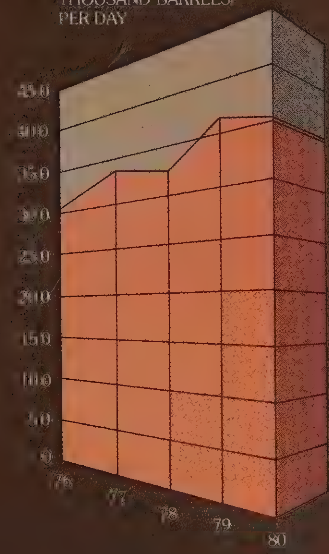
Production of synthetic crude from PanCanadian's net share of Syncrude averaged 2875 barrels a day compared to 2457 for the last half of 1979. Total plant production in 1980 was 29.6 million barrels despite interruptions experienced mainly in the first quarter. Average daily output for the year was 80 792 barrels, with a record average daily output in June of 123 600 barrels.

Natural Gas

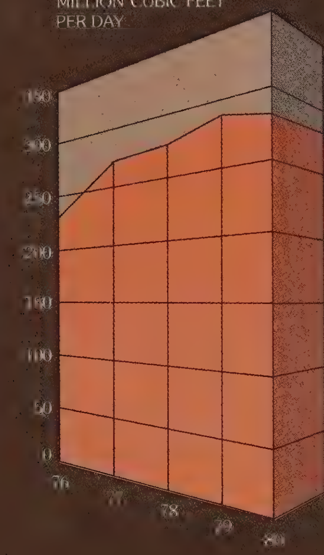
Natural gas production averaged 281.4 million cubic feet a day, a 3% reduction from the 1979 average of 289.9. The decline was due to reduced demand for natural gas in both Canada and the United States. Gas transmission capabilities were also interrupted due to a fire at a mainline compressor station in southeast Alberta early in 1980. A total of 44 new gas wells were tied in and put on production to maintain contract rates. The Morley sour gas plant, west of Calgary, was completed in the third quarter with sales of natural gas and sulphur commencing in September.

Active development projects in Alberta were pursued in several areas covered by gas purchase contracts. Shallow gas development in the Verger West and Rosemary areas in southeast Alberta commenced in 1980. Production facilities are being installed to tie in 167 wells and add compression. The Verger South gas gathering system is being expanded to add 35 wells and at Countess-Makepeace, a gas gathering system, compressor station and plant enlargement program commenced in 1980. Completion of these projects is scheduled for the second quarter of 1981.

Net Crude Oil & NGL Production
THOUSAND BARRELS PER DAY



Net Natural Gas Sales
MILLION CUBIC FEET PER DAY



Bucket wheel reclaimer at Syncrude

Following recent exploratory successes, development drilling took place in the Hoadley-Leedale areas of central Alberta in preparation for deliveries to begin under new and existing gas purchase contracts. Gas gathering, compression and transmission systems are being constructed and completion is scheduled for late 1981.

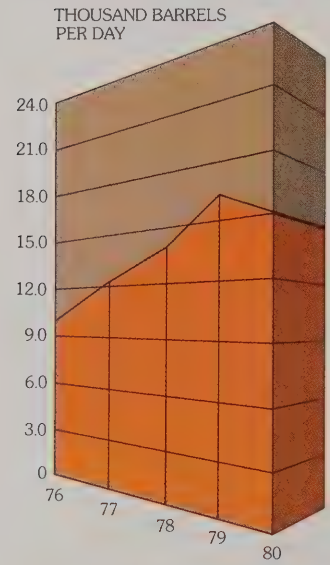
Natural Gas Liquids

Sales of liquids from the Empress plants decreased to 15 175 barrels a day, an 8% drop from 1979 sales of 16 465. This was due mainly to transmission system interruptions and a lower liquid content in the supply available to the plant. While sales of ethane were up 2%, propane, butane and condensate sales declined 19%. Sales of liquids extracted from Company-produced natural gas decreased to 2504 barrels a day from 2584 barrels a day in 1979.

Sulphur

In 1980, PanCanadian sold 436 long tons of sulphur a day, a 54% increase over the 1979 daily sales volume of 283 long tons. Increased sales were due to high demand as the world sulphur market improved. As a result of the higher sales, year-end inventories were reduced.

Empress Plant
Natural Gas Liquid Sales



10 Year Production Review

After Royalty	Oil* (thousand barrels)	Natural Gas Liquids (thousand barrels)	Oil* and NGL (thousand barrels)	Natural Gas (million cubic feet)
Year				
1971	9 427	987	10 414	65 452
1972	11 381	1 061	12 442	73 025
1973	14 810	1 076	15 886	76 727
1974	13 289	1 046	14 335	82 594
1975	11 199	1 046	12 245	81 622
1976	10 141	984	11 125	84 799
1977	11 398	952	12 350	99 658
1978	10 949	987	11 936	100 689
1979	12 826	943	13 769	105 797
1980	**13 178**	**916**	**14 094**	**102 975**

* Includes conventional and synthetic crude oil.

RESERVES

Proven and probable reserves, before royalty, in Canada and the United States as of December 31, 1980 were 3761 billion cubic feet (bcf) of natural gas, 156 million barrels of crude oil and natural gas liquids and three million long tons of sulphur.

Natural Gas

Natural gas proven and probable reserves, before royalty, were increased to 3761 bcf, 10% more than 1979 reserves of 3426 bcf. Increases of 607 bcf, resulting from exploratory and development drilling, were offset by production of 110 bcf and engineering reviews of 162 bcf. The principle reserve additions occurred at Countess, Hussar-Crowfoot, Leedale, Tangent and Verger. At 1980 production levels, the constant rate reserve life index is 34 years.

Crude Oil and Natural Gas Liquids

Proven and probable reserves of crude oil and natural gas liquids, before royalty, at year-end were 156 million barrels, down 4% from 1979 reserves of 163 million barrels. Drilling at Alderson West, Countess, Hussar, Hussar-Crowfoot, Richdale and Verger added 5.4 million barrels, while engineering reviews added another 2.2 million barrels. Production in 1980 reduced the reserves by 14.4 million barrels. The constant rate reserve life index, based on 1980 production rates, is 11 years.

Synthetic Oil

At Syncrude, PanCanadian's share of 1980 gross production was 1.1 million barrels, reducing 1979's reported reserves to 43.8 million barrels.

Coal

Proven and probable reserves of coal, before royalty, increased by 138 million short tons in 1980 and now total 1992 million short tons. Surface and underground reserves are 1073 and 919 million short tons, respectively.

Proven and Probable Reserves

	Marketable Natural Gas (billion cubic feet)	Crude Oil and Natural Gas Liquids (thousand barrels)	Sulphur (thousand long tons)	Coal (million short tons)	Synthetic Oil (thousand barrels)
Reserves at January 1, 1980	3 426	163 029	2 955	1 854	44 879
Reserves Added	445	7 639	181	138	—
Less Production	110	14 448	142	—	1 052
Reserves at December 31, 1980 (before royalty)	3 761	156 220	2 994	1 992	43 827
Less Royalty Deductions	262	17 839	45	13	
Reserves at December 31, 1980 (after royalty)	3 499	138 381	2 949	1 979	
Proven Reserves at December 31, 1980					
Before Royalty	2 507	115 623	2 152	885	43 827
After Royalty	2 302	100 234	2 112	877	
Probable Reserves at December 31, 1980					
Before Royalty	1 254	40 597	842	1 107	
After Royalty	1 197	38 147	837	1 102	

NOTES:

Reserves figures are calculated by Company engineers. For Reserve Recognition Accounting, proven reserves figures used were calculated by McDaniel Consultants (1965) Ltd. as published on pages 30 and 31 in this Report.

Volumes do not include the Company's interest in Panarctic Oils Ltd., Minerals Ltd., Marguerite Lake or sulphur from the Syncrude project.

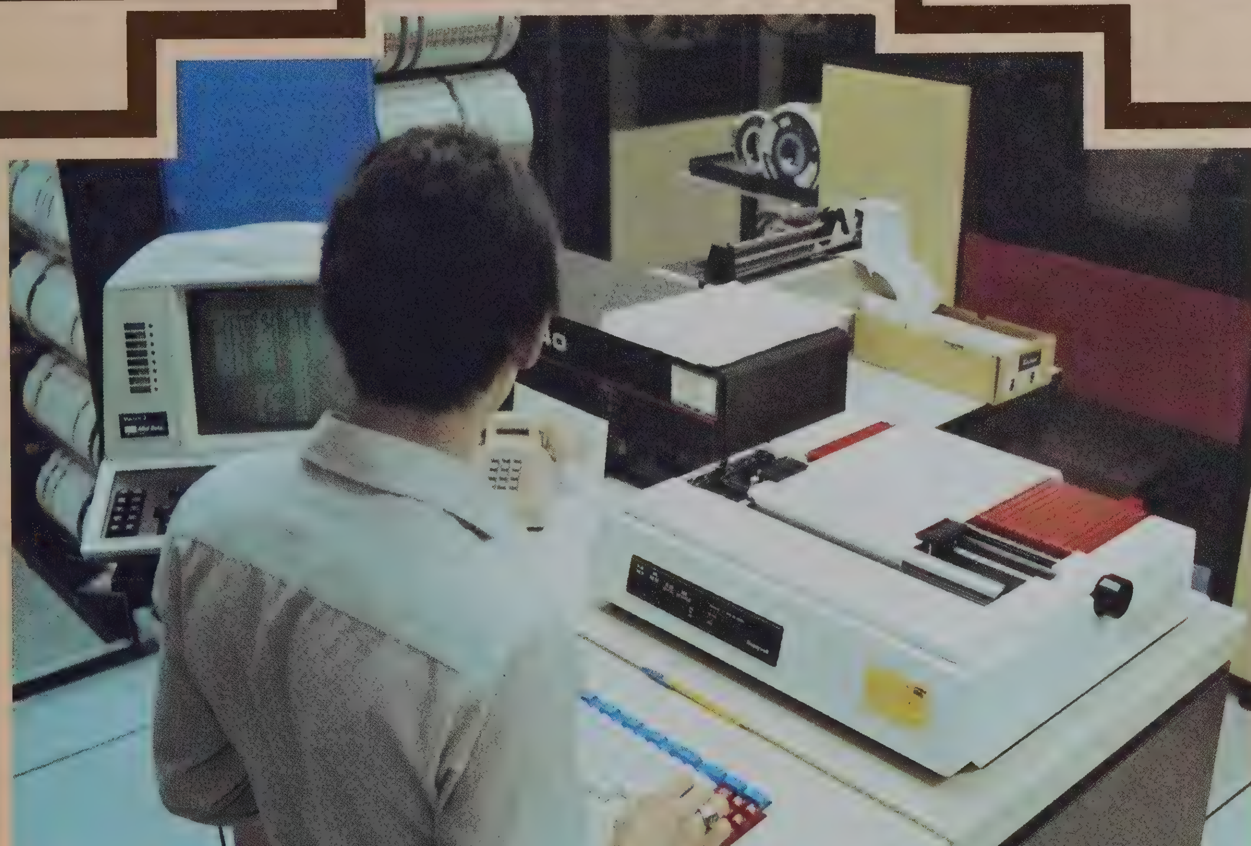
Proven reserves are those quantities of crude oil, natural gas, natural gas liquids and sulphur which analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions.

Probable reserves are those additional quantities estimated to be commercially recoverable from known oil and gas fields, as a result of the effects of the future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Marketable natural gas reserves comprise gases from which certain hydrocarbon and non-hydrocarbon compounds have been removed or partially removed by processing where necessary to meet pipeline or other market specifications, and are measured at a base pressure of 14.65 psia and base temperature of 60°F.

Surface recoverable coal reserves include coal to a maximum strip ratio of 15 cubic yards of overburden to one ton of coal, to a maximum depth of 150 feet.

FINANCIAL



Earnings

Net income for 1980 was $241.4 million, an increase of 46% over 1979 earnings of $165.8 million. Net income per share rose to $7.73 from $5.31 in 1979. The rate of return on average invested capital increased to 24% from 20% the previous year.

Revenues

	1980		1979		% Increase (Decrease)
	Amount	%	Amount	%	From 1979
	(thousands of dollars)				
Natural Gas	**$240 131**	**41.8**	$171 927	40.6	39.7
Crude Oil	**218 787**	**38.1**	166 944	39.4	31.1
Empress Plant Natural Gas Liquids Sales	**76 191**	**13.2**	59 366	14.0	28.3
Natural Gas Liquids	**13 605**	**2.4**	10 495	2.5	29.6
Sulphur	**7 006**	**1.2**	2 309	0.5	203.4
Lease Rentals	**1 647**	**0.3**	1 672	0.4	(1.5)
Miscellaneous	**17 320**	**3.0**	11 192	2.6	54.8
	$574 687	**100.00**	$423 905	100.0	35.6

The price received for conventional crude oil averaged $14.86 a barrel in 1980 compared to $12.57 in 1979. The wellhead price of crude oil increased $1.00 a barrel effective January 1, 1980, and $2.00 a barrel effective August 1, 1980. Revenue from the Syncrude oil sands plant amounted to $38.6 million compared to $11.4 million in 1979. The 1980 figures represent the first full year of commercial production for the Syncrude plant. The price of synthetic crude oil averaged $36.64 a barrel in 1980, compared to $25.24 during the last six months of 1979.

The 40% increase in natural gas sales revenue was attributable to higher natural gas prices, particularly for exports to the United States. During the year, the average price received for natural gas was $2.33 a thousand cubic feet compared to $1.62 the previous year. The domestic price of natural gas increased 15 cents a thousand cubic feet effective February 1, 1980, and 30 cents a thousand cubic feet effective September 1, 1980.

The average price for natural gas liquids increased to $13.88 a barrel from $10.05 in 1979. This price gain, however, was partially offset by lower sales volumes.

Revenue from sulphur sales increased as a result of higher prices and increased sales volumes. Due to strong export demand, average sulphur prices realized increased to $43.96 a long ton compared to $22.36 in 1979.

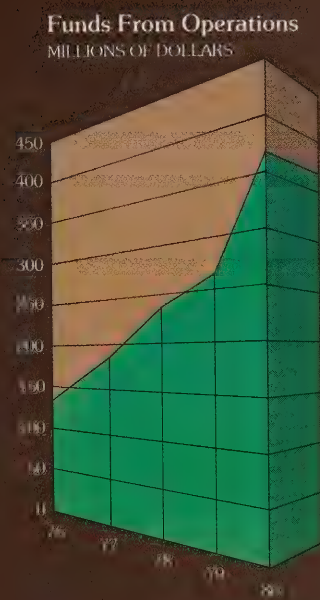
Expenses

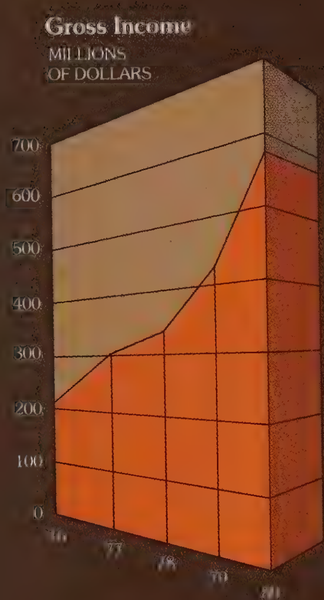
Total expenses, exclusive of income taxes, were $213.8 million in 1980, a 16% increase over 1979. Operating expenses accounted for $107.0 million of the total, an increase of 24% from the previous year.

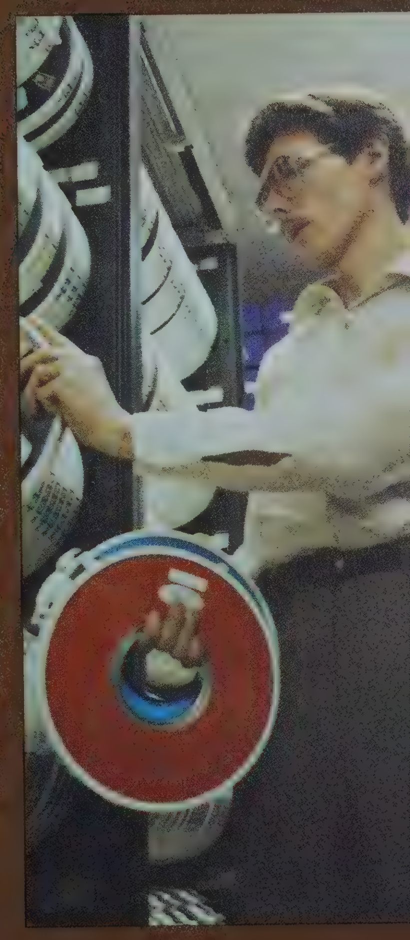
Oil operating expenses excluding Syncrude were $22.2 million in 1980, a 12% increase over 1979. Syncrude expenses increased 123% to $20.8 million, reflecting twelve months of commercial production in 1980 compared to six months in 1979. Operating expenses for natural gas and related products increased 30% to $27.3 million in 1980 due to higher maintenance costs and an increase in the number of producing properties. Operating expenses for the Empress extraction plant amounted to $36.7 million in 1980 compared to $36.1 million in 1979 largely due to higher feedstock prices.

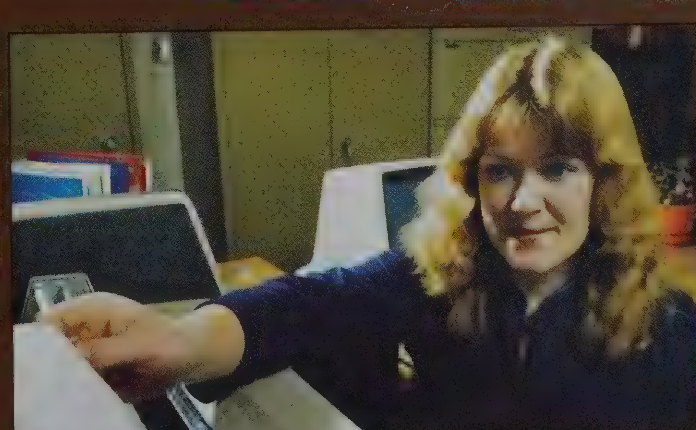
Administrative expenses totalled $16.0 million, a 20% increase over 1979 due to the growth of Company activities and inflation. Interest expense decreased 16% to $25.4 million as a result of a reduction in long-term debt.

Depreciation and amortization increased 38% to $23.3 million because of additional production facilities and depreciation associated with the Syncrude plant. Depletion expense was $42.1 million in 1980 compared to $37.1 million in 1979.


Funds From Operations
MILLIONS OF DOLLARS
450
400
350
300
250
200
150
100
50
0
76
77
78
79
80


Gross Income
MILLIONS
OF DOLLARS
700
600
500
400
300
200
100
0
76
77
78
79
80





Income Taxes

Income taxes amounted to $119.6 million in 1980, an increase of 61% over the $74.4 million reported in 1979, primarily as a result of increased earnings and the introduction in 1980 of the 5% corporate surtax. Current and deferred taxes increased $31.6 million and $13.6 million, respectively.

Dividends

Commencing in 1980, dividends were paid on a quarterly basis and amounted to $99.9 million or $3.20 per share. In 1979, dividends totalled $54.6 million or $1.75 per share and were paid on a semi-annual basis.

Capital Expenditures

During 1980, capital expenditures amounted to $270.0 million of which $236.2 million or 87% was expended on domestic operations. Of the balance, $27.5 million was spent in the United States and $6.3 million was spent on other foreign operations. The reinvestment rate, representing capital expenditures as a percentage of cash flow, was 73% in 1980 compared to 80% in 1979.

Capital expenditures for land, exploration, drilling and Panarctic totalled $219.5 million or 60% of funds from operations, compared to $168.5 million or 63% in 1979. Capital expenditures on plant, production and other equipment amounted to $50.5 million, an 8% increase over 1979.

Financial Position

At December 31, 1980, working capital was $27.2 million compared to $38.1 million at the end of 1979. Funds from operations increased 37% to $367.3 million or $11.76 per share. Deferred production income resulting from take-or-pay provisions of gas purchase contracts increased from $16.2 million in 1979 to $33.0 million at year-end. These funds will be taken into income when actual production of the gas occurs. During 1980, PanCanadian's internal sources of working capital were sufficient to satisfy capital expenditures, dividends and other applications of funds.

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited as at December 31, 1980 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 18, 1981

PRICE WATERHOUSE & CO.
Chartered Accountants

Consolidated Statement of Income and Retained Income

For the Year Ended December 31, 1980

	1980	1979
	(thousands of dollars)	
Income:		
Operating revenue	**$557 367**	$412 713
Interest income from affiliated company (Note 2)	**10 689**	6 539
Miscellaneous	**6 631**	4 653
	574 687	423 905
Expenses:		
Operating	**107 030**	86 098
Administrative	**15 967**	13 353
Interest on long-term debt	**25 373**	30 239
Depreciation and amortization	**23 254**	16 887
Depletion	**42 126**	37 143
	213 750	183 720
Income before income taxes	**360 937**	240 185
Provision for income taxes:		
Current	**58 192**	26 578
Deferred	**61 378**	47 777
	119 570	74 355
Net income	**$241 367**	$165 830
Retained income at beginning of year	**488 957**	377 759
	730 324	543 589
Dividends — $3.20 per share (1979 — $1.75)	**99 909**	54 632
Retained income at end of year	**$630 415**	$488 957
Earnings per share	**$ 7.73**	$ 5.31

PanCanadian Petroleum Limited

Consolidated Balance Sheet — December 31, 1980

Assets

	1980	1979
	(thousands of dollars)	
Current assets:		
Cash	**$ 546**	$ 2 259
Deposits with affiliated company (Note 2)	**98 156**	37 902
Accounts receivable	**90 987**	93 228
Inventories, at average cost —		
Products	**11 412**	6 995
Materials	**4 356**	3 185
	205 457	143 569
Property, plant and equipment, at cost:		
Petroleum, natural gas and mineral properties	**1 065 613**	846 268
Less: Accumulated depletion	**(251 077)**	(209 116)
Plant, production and other equipment	**245 036**	204 754
Less: Accumulated depreciation and amortization	**(93 868)**	(81 518)
Syncrude Project	**152 797**	148 571
Less: Accumulated depreciation and amortization	**(8 597)**	(2 713)
	1 109 904	906 246
Investments, at cost:		
Panarctic Oils Ltd.	**22 246**	22 092
Other	**633**	599
	22 879	22 691
Other assets:		
Long-term notes receivable (Note 3)	**32 927**	33 575
Drilling, reservation and other deposits	**289**	211
Unamortized debenture discount and issue expenses	**961**	1 151
Unamortized gas processing contracts	**9 550**	9 867
	43 727	44 804
	$1 381 967	$1 117 310

Liabilities and Shareholders' Equity

	1980	1979
	(thousands of dollars)	
Current liabilities:		
Accounts payable and accrued liabilities	**$ 121 973**	$ 88 559
Income taxes payable	**29 118**	10 220
Current portion of long-term debt	**27 215**	6 740
	178 306	105 519
Long-term debt (Note 4)	**176 425**	204 390
Deferred credits:		
Deferred production income	**33 025**	16 233
Deferred rentals	**444**	237
Deferred income taxes	**290 299**	228 921
	323 768	245 391
Shareholders' equity:		
Capital stock — (Note 5)		
Issued —		
31 224 979 shares	**31 225**	31 225
Paid in surplus	**41 828**	41 828
Retained income	**630 415**	488 957
	703 468	562 010
	$1 381 967	$1 117 310

APPROVED BY THE BOARD:

Robert W. Campbell Director

Bartlett Rombough Director

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1980

	1980	1979
	(thousands of dollars)	
Source of working capital:		
Net income	**$241 367**	$165 830
Expenses not requiring a current outlay of funds —		
Depreciation and amortization	**23 254**	16 887
Depletion	**42 126**	37 143
Deferred income taxes	**61 378**	47 777
Other	**(813)**	470
Funds from operations	**367 312**	268 107
Issue of capital stock	**—**	271
Proceeds from sale of ammonia plant project	**2 088**	30 129
Proceeds from sale of portion of interest in Syncrude Project	**—**	27 474
Deferred production income	**16 792**	9 993
Long-term notes receivable (Note 3)	**3 921**	—
Other	**95**	800
	390 208	336 774
Application of working capital:		
Petroleum, natural gas and mineral properties	**219 319**	167 137
Plant, production and other equipment	**46 200**	33 595
Syncrude Project	**4 287**	13 095
	269 806	213 827
Investment in Panarctic Oils Ltd.	**154**	1 364
Long-term notes receivable (Note 3)	**3 273**	33 575
Reduction of long-term debt	**27 965**	67 465
Dividends	**99 909**	54 632
Other	**—**	254
	401 107	371 117
Decrease in working capital	**10 899**	34 343
Working capital at beginning of year	**38 050**	72 393
Working capital at end of year	**$ 27 151**	$ 38 050

Notes to Consolidated Financial Statements

December 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES:

   a) Consolidation of Accounts

   The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned.

   b) Foreign Currency Translation

   Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

   Current assets and liabilities — at the year-end rate of exchange

   Other assets and liabilities — at historical rates of exchange

   Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

   All gains or losses on conversion to Canadian dollars are included in income.

   c) Full Cost Method of Accounting

   The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration and the development of oil and gas reserves are capitalized on a world-wide cost centre basis. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

   d) Depreciation of Property, Plant and Equipment

   Depreciation is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets. The diminishing balance method is applied to all plant, production and other equipment at rates varying from 5% to 20%, except for the Empress gas processing facility and the Syncrude Project which are depreciated on the straight-line basis at 4% per annum.

   e) Amortization

   Unamortized debenture discount and issue expenses are being charged to income on a straight-line basis over the terms of the debenture issues.

   Unamortized gas processing contracts are being charged to income on a straight-line basis over the life of the contracts.

   f) Deferred Production Income

   Pursuant to take-or-pay provisions included in certain gas purchase contracts, payments were received during the year for gas to be delivered at future dates. The Company records these payments as deferred production income and takes them into income when the gas is delivered or the contracts expire, whichever first occurs.

   g) Income Taxes

   The Company follows the allocation method of accounting for income taxes.

2. RELATED PARTY TRANSACTIONS:

Substantially all of the Company's funds which were surplus to its day to day requirements were invested in deposits of Canadian Pacific Enterprises Limited. These deposits carry interest at rates at least equal to the interest rates paid from time to time by a leading Canadian Chartered bank on equivalent deposits.

In the normal course of business the Company purchases materials, utilizes services and leases office space from other companies with which it is affiliated. All such transactions have been conducted at arm's length during the year.

3. LONG-TERM NOTES RECEIVABLE:

Under the terms of the agreement for sale of its investment in an ammonia plant project the Company received notes which are payable in U.S. funds, together with interest accrued thereon at the rate of $9\frac{5}{8}$% from April 1, 1979 to December 31, 1980, in four equal annual instalments commencing December 31, 1986. Interest after December 31, 1980 accrues at $10\frac{7}{8}$% and will be paid semi-annually commencing June 30, 1981.

4. LONG-TERM DEBT:

Details of long-term debt outstanding at December 31, 1980 and 1979 are set forth hereunder:

	1980	1979
	(thousands of dollars)	
Bank loans due 1981 - 1985	**$123 140**	$129 355
$8\frac{1}{8}$% secured debentures due March 1, 1992, sinking fund payments 1981 - 1991, secured by a first mortgage upon certain producing properties	**22 000**	22 775
$8\frac{3}{4}$% secured debentures due November 1, 1992, sinking fund payments 1981 - 1991, secured by a first mortgage upon certain producing properties	**23 500**	24 000
$9\frac{3}{4}$% unsecured debentures due November 15, 1983	**35 000**	35 000
	203 640	211 130
Less: Current portion	**27 215**	6 740
	$176 425	$204 390

The bank loans bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

The Company has agreed that, without the consent of the bankers, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

With regard to the $35 000 000 9¾% unsecured debentures, the Company has agreed that it and its subsidiaries will not create any mortgages or other charge on their assets to secure a loan or other indebtedness in the form of bonds or other indebtedness which at the time of issue are intended to be traded on any stock exchange or publicly traded in the over-the-counter market in any part of the world unless the debentures then outstanding are similarly secured.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

	(thousands of dollars)
1981	$27 215
1982	23 965
1983	70 085
1984	21 375
1985	21 375

5. CAPITAL STOCK:

During 1980 the Company elected to continue as a federally chartered corporation under the Canada Business Corporations Act. As a result the Company's share capital structure was amended to provide for an unlimited number of common shares without a par value.

6. OFFICERS' AND DIRECTORS' REMUNERATION:

During 1980 there were thirteen directors (including one director who retired during the year) and sixteen officers of whom four were also directors.

Officers' remuneration and directors' fees for 1980 amounted to $1 124 000 and $93 000 respectively (1979 — $957 000 and $79 000) none of which was paid by subsidiaries.

Reserve Recognition Accounting

PanCanadian's financial statements are prepared on the "Full Cost" method of accounting as described in Note 1c to the financial statements. The Securities and Exchange Commission (SEC) in the United States concluded that historical cost methods (Full Cost and Successful Efforts) do not provide sufficient information on operating results and financial position of oil and gas producers. As a result, the SEC has mandated Reserve Recognition Accounting (RRA) which can be applied uniformly to all producers. Although PanCanadian is not subject to SEC reporting requirements, it has prepared the RRA information for those investors who may wish to have access to such information.

RRA statements are not prepared in accordance with generally accepted accounting principles and thus are not prepared on the same basis as the financial statements or notes thereto. Inclusion of RRA information is not intended to express an opinion of PanCanadian that oil and gas prices or production and development costs will remain constant or will change at the same rates or that existing economic conditions will continue, all of which are assumed in preparing such statements. Their inclusion should not be interpreted as indicating that PanCanadian believes that valid inferences as to PanCanadian's probable future net revenues or pre-tax earnings can be derived therefrom.

Under the RRA method, proved reserves of oil and gas are recorded as "assets" upon discovery. The valuation of these assets is based on the present value of future net revenues to be derived from producing the reserves. Current year additions to proved reserves and revisions to the valuation of the reserves are reflected in the RRA Income Statement, along with all costs associated with finding, developing and producing new reserves.

PanCanadian's estimated future net revenues from proved oil and gas reserves for 1981 through 1983 and all remaining years based on estimated reserves at December 31, 1980, are as follows:

	1981	1982	1983	All Remaining Years	Total
			(thousands of dollars)		
Estimated future net revenues from proved reserves* (not discounted)	$364 478	$325 122	$343 538	$4 620 355	$5 653 493

*Estimated future net revenues from proved reserves were obtained by multiplying year-end prices by estimated future production for the periods indicated and deducting constant dollar year-end estimates of production costs, royalties and allowances for the cost of drilling additional wells.

The present value of estimated future net revenues from proved reserves, discounted at 10%, was $2 627 506 000 at December 31, 1980 and $1 936 500 000 at December 31, 1979.

The following table is a summary of oil and gas producing activities in 1980 and 1979 on the basis of RRA.

	1980	1979
	(thousands of dollars)	
Present value of gross additions to proved reserves	**$ 63 158**	$ 98 725
Revisions to estimates of reserves proved in prior periods:		
Changes in price	**721 161**	533 598
Changes in operating expense forecasts for proved reserves	**41 885**	(249 264)
Changes in production timing and engineering review of proved reserve quantities	**(7 718)**	157 571
Accretion of discount	**193 650**	151 797
	1 012 136	692 427
Acquisition, exploration, development and production costs:		
Costs incurred, including impairments	**157 698**	134 649
Present value of estimated future development and production costs	**8 541**	17 147
	166 239	151 796
Additions and revisions to proved reserves over related costs*	**845 897**	540 631
Provision for income taxes (at historical effective rate)	**284 136**	172 948
Results of oil and gas producing activities on the basis of reserve recognition accounting	**$561 761**	$367 683

*The corresponding pre-tax profit contribution reported in the historical financial statement is $333 652 in 1980 ($249 490 in 1979).

The following table summarizes the changes in the present value of estimated future net revenues from proved reserves during 1980 and 1979. All amounts included in this table are prior to income taxes.

	1980	1979
	(thousands of dollars)	
Balance at January 1	**$1 936 500**	$1 517 960
Additions and revisions less related estimated future development and production costs of $8 541 (1979 - $17 147)	**1 003 595**	675 280
Expenditures that reduced estimated future development costs	**78 098**	42 444
	1 081 693	717 724
Less: Sales and transfers of oil and gas, net of production costs and mineral reserve taxes of $49 468 (1979 - $40 683)	**390 687**	299 184
	691 006	418 540
Balance at December 31	**$2 627 506**	$1 936 500

For the purposes of RRA, PanCanadian has used proved reserve estimates as determined by McDaniel Consultants (1965) Ltd.

A report dated February 6, 1981 has been prepared by McDaniel Consultants (1965) Ltd., Calgary, Alberta, independent oil and gas reserve evaluators, estimating PanCanadian's net share of remaining proved crude oil, natural gas and natural gas liquids reserves in Canada. Net reserves shown by the report are included in the table which follows. Also included is PanCanadian's net share of remaining proved crude oil, natural gas liquids, and natural gas reserves in the United States, as estimated by PanCanadian's engineers. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest or a royalty interest, less all royalties and interests owned by others.

	Oil (including natural gas liquids) (thousands of barrels)			Natural Gas (MMcf)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves:						
December 31, 1980	95 922	996	96 918	2 205 046	24 073	2 229 119
December 31, 1979	104 564	787	105 351	2 054 531	15 143	2 069 674

Net reserves and changes in net proved reserves of oil (including natural gas liquids) and natural gas during the years ended December 31, 1980 and 1979 were as follows:

	Oil (including natural gas liquids)	Natural Gas
	(thousands of barrels)	(MMcf)
Net reserves — December 31, 1978	112 579	1 899 575
Revisions of previous estimates	4 180	135 848
Extension, discovery and other additions	1 908	140 048
1979 production	(13 316)	(105 797)
Net reserves — December 31, 1979	105 351	2 069 674
Revisions of previous estimates	4 222	193 478
Extension, discovery and other additions	387	68 942
1980 production	(13 042)	(102 975)
Net reserves — December 31, 1980	96 918	2 229 119

Proved reservès are considered to be those reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

At December 31, 1980, PanCanadian had estimated proved reserves before royalty of 43 827 000 barrels of crude oil attributable to the Syncrude Project which are not included in the above table.

TEN YEAR STATISTICAL REVIEW

(Dollar amounts in thousands except per share figures)

		1980	1979
Earnings	Gross Income	**$ 574 687**	$ 423 90
	Funds from Operations	**367 312**	268 10
	Per Share	**11.76**	8.5
	Net Income	**241 367**	165 83
	Per Share	**7.73**	5.3
Balance Sheet	Working Capital (Deficiency)	**27 151**	38 05
	Property, Plant & Equipment — Net	**1 109 904**	906 24
	Investments & Other Assets	**66 606**	67 49
	Long-Term Debt	**176 425**	204 39
	Deferred Income Taxes	**290 299**	228 92
Capital Expenditures	Exploration	**184 514**	153 89
	Development	**34 805**	13 24
	Production Facilities & Equipment	**46 200**	33 59
	Syncrude Project	**4 287**	13 09
	Investment in Panarctic Oils Ltd.	**154**	1 36
Proven & Probable Reserves (after royalty)	Natural Gas (billion cubic feet)	**3 499**	3 17
	Crude Oil & Natural Gas Liquids (thousand barrels)	**138 381**	144 74
	Synthetic Oil (thousand barrels)	**43 827**	44 87
	Sulphur (thousand long tons)	**2 949**	2 91
	Coal (million short tons)	**1 979**	1 84
Production (after royalty)	Natural Gas Sales (thousand cubic feet per day)	**281 351**	289 85
	Crude Oil & Natural Gas Liquids Production (barrels per day)	**35 632**	36 48
	Synthetic Oil (barrels per day)	**2 875**	1 23
	Empress Plant Natural Gas Liquids Sales (barrels per day)	**15 175**	16 46
	Sulphur Sales (long tons per day)	**436**	28
Acreage	Gross (thousand acres)	**25 261**	23 11
	Net (thousand acres)	**11 935**	11 59
Shares & Dividends	Number of Shares Outstanding	**31 224 979**	31 224 97
	Number of Shareholders	**4 581**	4 76
	Dividends	**99 909**	54 63
	Per Share	**3.20**	1.7
	Market Price Per Share — High	**98**	67
	— Low	**60¼**	38

Valuation Day (December 22, 1971) Share Price $15¼

	1978 (Restated)	1977	1976	1975	1974	1973	1972	1971
	$ 333 762	$ 301 346	$ 206 941	$ 159 590	$ 130 572	$ 75 374	$ 47 271	$ 39 432
	233 797	186 096	134 440	99 756	74 557	49 872	34 965	30 598
	7.49	5.96	4.31	3.20	2.39	1.60	1.12	1.00
	155 883	126 546	85 033	68 663	46 243	21 300	12 544	12 197
	4.99	4.05	2.72	2.20	1.48	0.68	0.40	0.39
	72 393	57 816	25 327	(9 625)	11 748	10 900	29 896	(1 794)
	804 114	504 765	428 327	342 957	278 626	249 356	203 112	186 766
	33 619	31 955	29 328	25 996	23 696	22 242	9 058	6 863
	271 855	119 632	130 447	81 429	89 946	93 468	71 979	32 706
	181 144	144 174	118 723	101 302	89 317	81 367	71 086	62 689
	131 878	74 645	57 032	30 980	30 285	22 934	22 756	19 349
	16 200	18 941	14 923	13 622	9 675	4 385	1 985	1 129
	28 657	16 444	45 081	38 510	9 356	4 695	5 597	4 373
	163 046	—	—	—	—	—	—	—
	1 536	3 014	2 876	3 155	1 764	1 705	1 812	1 573
	2 683	2 448	2 366	2 384	2 298	2 225	1 627	1 627
	146 336	152 963	165 851	185 945	194 493	206 755	215 947	218 213
	57 000	—	—	—	—	—	—	—
	2 990	3 436	3 773	4 756	4 076	3 573	3 871	3 960
	1 748	1 490	860	485	—	—	—	—
	275 861	273 036	231 691	223 623	226 285	210 210	199 522	179 320
	32 700	33 834	30 395	33 546	39 273	43 521	33 995	28 530
	—	—	—	—	—	—	—	—
	14 281	12 163	9 980	9 363	11 979	7 065	—	—
	246	230	143	139	218	219	154	192
	23 149	28 905	30 256	31 793	39 686	45 671	20 037	18 697
	11 566	13 362	13 059	15 311	16 426	19 705	14 798	14 930
	31 219 534	31 219 534	31 219 534	31 219 534	31 219 534	31 214 990	31 205 985	31 197 972
	5 119	5 363	5 905	7 170	7 492	7 840	7 881	8 010
	35 583	29 653	27 784	26 847	19 355	12 795	9 982	9 560
	1.14	0.95	0.89	0.86	0.62	0.41	0.32	0.31
	38¾	36	25¾	17¼	14	18½	17⅜	17¾
	30¾	23¾	15⅞	7⅝	7⅛	11⅜	13	12

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